Government of
Saskatchewan

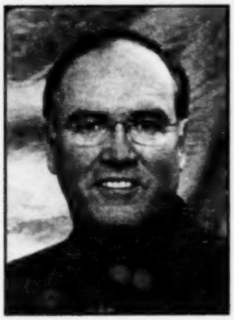
Annual Report 2006-2007

Agricultural Credit Corporation of Saskatchewan

Table of Contents

This annual report is also available in electronic format from the department's website at **www.agr.gov.sk.ca**.

Letter of Transmittal



Regina, Saskatchewan
June 30, 2007

To His Honour
The Honourable Dr. Gordon L. Barnhart,
Lieutenant Governor of the Province of Saskatchewan

May it please Your Honour:

I have the honour to present the Annual Report of the Agricultural Credit Corporation of Saskatchewan for the fiscal year ended March 31, 2007.

Respectfully submitted,

Mark Wartman

Mark Wartman
Minister of Agriculture and Food

Year in Review

The ACS loan portfolio was reduced from $31.8 million to $26.7 million, while the number of loans decreased from 1,610 to 1,336. In addition, ACS holds assets of approximately $5 million that were acquired as the result of settlement, quit claim or foreclosure.

Guarantees provided to lenders under The Livestock Drought Loan Program and The BSE Livestock Loan Guarantee Program were reduced by $11 million to $10.2 million this past fiscal year. There continues to be uncertainty and difficulties for the agriculture industry and, as a result, ACS paid out $.8 million to lenders as a result of claims on the guarantees. These loans are now being administered by ACS.

The Agri-Food Equity Fund (AFEF) continues to be wound down. The remaining investment portfolio of $13.1 million is invested in 13 companies.

During the 2005-2006 fiscal year, the Government of Saskatchewan established another division of the Corporation known as the Food Industry Development Division. The division is assisting the Province in implementing the Department's food industry development strategy. A toll processing centre – The Saskatchewan Toll Processing Centre (STPC) - has been established and a grand opening was held in Melfort on September 1, 2006. STPC is unique to Saskatchewan and offers meat processors the opportunity to enter the market without having to invest in plant construction and equipment.

Tom Schwartz, Acting Executive Manager
ACS Loan Portfolio division
Agri-Food Equity Fund division

Management's Responsibility for the Annual Report

The Agricultural Credit Corporation of Saskatchewan's (ACS) management is responsible for the preparation, integrity and fair presentation of the financial statements and other information in the Annual Report. The financial statements have been prepared in accordance with Canadian generally accepted accounting principles. Where estimates are used, they are based on management's best judgement. Financial and operating information provided elsewhere in the Annual Report is consistent with that contained in the financial statements.

ACS maintains systems of internal accounting and administrative controls designed to provide reasonable assurance that the financial information is accurate and reliable and that corporate assets are adequately accounted for and safeguarded. The Board of Directors oversees the systems of internal accounting and administrative controls. Management and the Corporation's external auditors meet periodically throughout the year to review their respective responsibilities and to discuss audit plans, the results of reviews of internal accounting controls, policies and procedures and the financial statements and notes thereto.

The Board of Directors has approved the financial statements and the other information in this Annual Report. In addition, the financial statements have been audited by Meyers Norris Penny LLP whose report follows.

Mitch Demyen, Manager
Food Industry Development division
May 25, 2007

Auditors' Report

To the Members of the Legislative Assembly, Province of Saskatchewan:

We have audited the consolidated balance sheet of Agricultural Credit Corporation of Saskatchewan as at March 31, 2007 and the consolidated statements of operations and surplus and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Corporation as at March 31, 2007 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Meyers Norris Penny LLP

Chartered Accountants

Regina, Saskatchewan
May 25, 2007

Consolidated Balance Sheet

As at March 31, 2007

	(in thousands of dollars) 2007	2006 (restated)
Assets		
Cash	**146**	124
Short-term investments	**18,095**	9,115
Accounts receivable	**357**	530
Inventory	**344**	333
Loans receivable *(Notes 4 and 5)*	**20,512**	23,975
Assets held for resale *(Note 6)*	**4,952**	5,326
Property, plant and equipment *(Note 7)*	**2,792**	1,616
Investments *(Note 8)*	**660**	686
	47,858	41,705
Liabilities		
Accounts payable and accrued liabilities	**652**	695
Provision for loss on Livestock Drought Loan Program *(Note 9)*	**158**	741
Provision for loss on BSE Livestock Loan Guarantee Program *(Note 9)*	**1,985**	3,700
Long-term debt *(Note 10)*	**7,749**	7,749
Deferred grants for equipment	**1,282**	-
	11,826	12,885
Equity		
Accumulated surplus	**36,032**	28,820
	47,858	41,705

Contingencies and commitments (*Note 9*)

Approved on behalf of the board

Harvey Brooks
Director

Hal Cushon
Director

The accompanying notes are an integral part of these financial statements.

Consolidated Statement of Operations and Surplus

For the year ended March 31, 2007	(in thousands of dollars) **2007**	2006 (restated)
Revenue		
Operating revenue *(Note 11)*	**5,985**	6,815
Expenses		
Cost of goods sold and overhead expenses	**2,854**	3,146
Amortization	**284**	133
Selling and administration expenses	**684**	655
Interest expense	**26**	24
	3,848	3,958
Surplus before the following	**2,137**	2,857
Other income (expense)		
Investment loss provision	**(353)**	(175)
Loan loss recovery	**4,130**	4,797
Counselling and Assistance For Farmers recoveries (*Note 4e*)	**146**	154
Gain on sale of Assets Held for Resale	**224**	283
Amortization of deferred grants for equipment	**141**	—
Assets held for resale net revenue	**311**	369
Reduction of grant from Department of Agriculture and Food	—	(3,559)
Grant from Department of Agriculture and Food	**509**	319
Write down of carrying value of assets	**(33)**	(66)
	5,075	2,122
Surplus for the year	**7,212**	4,979
Accumulated surplus - beginning of year, as previously reported	**28,451**	23,841
Change in accounting policy — *(Note 12)*	**369**	—
Accumulated surplus, beginning of the year, as restated	**28,820**	23,841
Accumulated surplus - end of year	**36,032**	28,820

The accompanying notes are an integral part of these financial statements.

Consolidated Statement of Cash Flows

For the year ended March 31, 2007	(in thousands of dollars) 2007	2006 (restated)
Cash provided by (used for) the following activities		
Operating		
Surplus for the year	**7,212**	4,979
Items not affecting cash		
Loan loss recovery	**(4,130)**	(4,797)
Investment loss provision	**353**	175
Amortization	**284**	133
Amortization of deferred grants for equipment	**(141)**	—
Write down of carrying value of assets	**33**	66
Changes in working capital other than cash (*Note 14*)	**816**	4,005
Loan payments received	**5,720**	6,418
Loan disbursements	**(1,048)**	(2,095)
	9,099	8,884
Investing		
Purchase of property, plant and equipment	**(1,488)**	(236)
Net purchases of short-term investments	**(8,980)**	(8,819)
	(10,468)	(9,055)
Financing		
Payments on capital leases	**(24)**	—
Grants received for equipment from Department of Agriculture and Food	**1,415**	—
	1,391	—
Increase (decrease) in cash resources	**22**	(171)
Cash resources, beginning of year	**124**	295
Cash resources, end of year	**146**	124

The accompanying notes are an integral part of these financial statements.

Notes to the Consolidated Financial Statements

1. **Status of Corporation**

The Agricultural Credit Corporation of Saskatchewan (ACS) acts as an agent of the Government of Saskatchewan and has provided financial assistance to encourage and promote the development and expansion of the agricultural industry in the Province. On March 28, 1996, the Government of Saskatchewan announced that the ACS portfolio would be wound down. All ACS employees were transferred to Department of Agriculture and Food; however, ACS still is responsible for collection of the loan funds, monitoring loan collectibility and retirement of their debt.

2. **Significant Accounting Policies**

a) Basis of Presentation

The consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles. These financial statements include the accounts of ACS and its wholly owned subsidiary. All significant intercompany transactions and balances have been eliminated. ACS and its subsidiary do not have coterminous year-ends and these consolidated financial statements reflect ACS's operations for the year ended March 31, 2007 and its subsidiary's operations for the year ended December 31, 2006.

b) Under Section 29 of *The Agricultural Credit Corporation of Saskatchewan Act*, the Minister of Agriculture and Food may make grants to the Corporation out of monies appropriated by the Legislature. Grants may be provided for the payment of administration costs, for the payment of interest on funds borrowed, to defray losses on loans not repaid and for other purposes that may be determined by the Minister. Grant funds received for the fiscal year are for specific purposes. Any excess funds received for the fiscal year and not expended on each specific purpose are reported on the balance sheet as unexpended grants repayable.

Operating grants from Department of Agriculture and Food are recognized as revenue when receivable. Capital grants related to depreciable property are deferred and are recognized as revenue over the useful lives of the assets. A portion of the capital grant is recognized as revenue each year equivalent to the amount of amortization recognized on the assets acquired with the grant funds.

c) The Corporation records, as assets held for resale, the fair market value, at the date of acquisition, of assets acquired through settlement, quit claim or foreclosure. Fair market value is determined by the market value of the assets acquired. Assets held for sale are subsequently valued at the lower of its carrying amount or fair value less cost to sell. The income or loss from operations associated with these assets is recorded in the statement of operations. The provision for losses represents management's estimate of possible losses on assets held for resale.

d) Investments are accounted for at cost. A provision for investment loss is recorded representing management's estimate of likely losses based upon an individual review of the investments.

e) Inventory is valued at the lower of cost and net realizable value. Cost is determined by the direct costing method.

Significant Accounting Policies (continued)

f) Property, plant and equipment are stated at cost. Amortization is provided using the following methods and annual rates:

Buildings	Straight-line	40 years
Computer equipment	Declining balance	30 per cent
Equipment	Straight-line	20 years
Toll processing equipment	Declining balance	20 per cent

g) An allowance for impaired loans is maintained that reduces the carrying value of loans to their estimated realizable amount. A loan is classified as impaired when there is no longer reasonable assurance that the principal and interest will be collected in full. The Corporation records general allowances when evidence of impairment within groups of loans exists but is not sufficient to allow identification of individual impaired loans. ACS estimates impairment using a formula based on its loss experience for similar groups of loans in similar economic circumstances. Management performs a net present value calculation on a sample of loans within the loan portfolio and extrapolates the results of the analysis to the entire loan portfolio population. Estimated realizable values are determined by discounting the expected future cash flows at the effective interest rate inherent in the loans. When the amounts and timing of future cash flows cannot be reliably established, estimated realizable values are determined by reference to underlying security value. As management identifies individual impaired loans, it assigns a specific allowance to the loan and adjusts the general allowance accordingly.

h) Revenue earned on the outstanding loan balance is recognized as earned, based on interest rates specific to each individual loan program. Dividend and interest income on the investment portfolio is recognized as earned. Sales revenue is recognized as the product is delivered to the customer.

i) Short term investments are term deposits that are readily convertible to cash and with maturities of less than one year.

j) Recent accounting pronouncements

In January 2005, the Canadian Institute of Chartered Accountants issued new recommendations for the recognition and measurement of financial instruments, and amendments to the existing presentation and disclosure standards, effective for interim and annual financial statements with fiscal years beginning on or after October 1, 2006. Transitional provisions are complex and vary based on the type of financial instruments. However, the Corporation does not expect the adoption of these new standards to have a material impact on its financial statements.

3. Measurement Uncertainty

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the reported amounts of revenues and expenses during the year. The Corporation reviews its overall allowance for loan loss and this process is subject to significant management judgement. Also, in determining estimates of net realizable value for its investments, the Corporation relies on assumptions

regarding financial performance as well as general business economic conditions that prevail and are expected to prevail. Assumptions underlying the investment valuations are limited by the availability of reliable data and the uncertainty of future events. In addition, there is management judgement involved in estimating the fair value of assets held for resale. There is also judgement with respect to management's estimate of losses on loans as a result of the guarantee programs. Due to uncertainties inherent in these estimation processes, it is possible that changes in the future conditions may cause recorded amounts to change by a material amount in the near term.

4. Loan Programs

a) Capital Loan Program

Loans are repayable over terms not exceeding 25 years and bear interest at rates between 5 per cent and 13½ per cent. Security on the loans varies and may include mortgages on real property, security agreements and guarantees.

b) Investment Loan Program

Investment loans bear interest at rates between 6½ per cent and 10½ per cent and are repayable over terms not exceeding 25 years. Security on the loans varies and may include mortgages on real property, security agreements and guarantees.

c) Production Loan Program

Production loans were disbursed in 1986 to provide farmers, bee colony owners, potato producers and greenhouse operators with loans bearing interest at 6 per cent, repayable in equal principal instalments over a term of three years. Amounts in arrears are at prime plus 2 per cent. Amendments to the program allowed the borrowers to reschedule their outstanding loans to mature in 1997. Subsequently, some loans were rewritten with longer terms to assist borrowers to repay their loans. These amended loans bear interest at an average rate of 9 per cent.

The loans are secured by promissory notes, and where applicable, by guarantees and general security agreements.

d) Livestock Cash Advance Program

Effective August 1, 1993, customers with livestock cash advances began repaying the loans, bearing interest at the bank prime rate plus 2 per cent over a maximum five-year period. Subsequently, some loans were rewritten with longer terms to assist borrowers to repay their loans. These amended loans bear interest at an average rate of 9 per cent.

The loans are secured by promissory notes, and where applicable, by guarantees.

e) Counselling and Assistance For Farmers Program

Effective August 1, 1992, ACS assumed responsibility for loans and guarantees which were outstanding under the Counselling and Assistance For Farmers Program. New guarantees were not issued under this program by the Corporation. The existing guarantees had been renewed until March 31, 1995 at which time the program was terminated.

The majority of the loans under this program are in default, had judgements obtained on them and bear interest at 5 per cent. The loans are secured by way of an assignment of security from the original lender.

f) BSE Livestock Loan Guarantee Program

During the 2007 fiscal year, the Corporation paid out $618,000 to honour guarantees on loans granted by financial institutions under the BSE Livestock Loan Guarantee Program. ACS acquires the loan once the guarantee is paid. The loans bear interest at prime plus 2 per cent.

The loans are secured by promissory notes and, where applicable, by guarantees and general security agreements.

g) Livestock Drought Loan Program

During the 2007 fiscal year, the Corporation paid out $181,000 to honour guarantees on loans granted by financial institutions under the Livestock Drought Loan Program (LDLP). ACS acquires the loan once the guarantee is paid. The loans bear interest at prime plus 2 per cent.

The loans are secured by promissory notes and, where applicable, by guarantees and general security agreements.

h) Agri-Food Equity Fund Division (AFEF) debentures

On February 28, 2003, the AFEF debentures were transferred to ACS at their net book value. AFEF debentures include interest-bearing instruments at rates ranging from 6 per cent to 15 per cent with maturities extending to October 2007. The profitability of the investee determines the repayment of principal and interest on the participating debenture.

5. Loans Receivable

			(in thousands of dollars) 2007			(in thousands of dollars) 2006
	Gross	**Allowance**	**Net**	Gross	Allowance	Net
Capital Loans	**23,110**	**4,646**	**18,464**	28,321	7,298	21,023
Investment Loans	**265**	**133**	**132**	289	156	133
BSE Loans	**2,079**	**1,247**	**832**	1,722	1,033	689
LDLP Loans	**295**	**177**	**118**	197	118	79
Production Loans	**346**	**170**	**176**	477	306	171
Livestock Cash Advances	**245**	**182**	**63**	314	233	81
Spring Seeding Loans	**3**	**1**	**2**	4	1	3
Counselling and Assistance For Farmers Loans	**365**	**365**	**—**	499	499	—
AFEF debentures	**5,340**	**4,615**	**725**	7,635	5,839	1,796
	32,048	**11,536**	**20,512**	39,458	15,483	23,975

During the year, a number of the Corporation's customers refinanced their Production Loans, Livestock Cash Advances, Spring Seeding Loans and Counselling and Assistance For Farmers loans under the Capital Loan Program.

Notes to the Consolidated Financial Statements

6. Assets Held For Resale

	(in thousands of dollars) 2007	2006 (restated)
Cost	**5,152**	5,526
Provision for losses	**(200)**	(200)
	4,952	5,326

Assets acquired are a result of settlement, quit claim or foreclosure and the Corporation actively pursues the sale of these assets in a timely manner.

7. Property, Plant and Equipment

	Cost	Accumulated Amortization	(in thousands of dollars) 2007	2006
Land	**16**	**-**	**16**	16
Building	**881**	**163**	**718**	744
Computer equipment	**48**	**4**	**44**	8
Equipment	**1,206**	**478**	**728**	848
Toll processing equipment	**1,429**	**143**	**1,286**	-
	3,580	**788**	**2,792**	1,616

Included in equipment are amounts of $376,814 (2006 - $376,814) under capital leases and accumulated amortization of $167,689 (2006 - $125,569).

8. Investments

	(in thousands of dollars) 2007	2006
Common shares	**6,198**	5,898
Preferred shares	**1,550**	1,576
	7,748	7,474
Less: provision for investment loss	**7,088**	6,788
	660	686

9. Commitments

Guaranteed loans under *The Agricultural Credit Corporation of Saskatchewan Act*

a) Guaranteed Vendor Mortgage

Guarantees may be provided by the Corporation to vendors under the Guaranteed Vendor Mortgage program for the sale of farmland and existing improvements. The guarantees are for 100 per cent of the principal amount outstanding. The contingent liability of the Corporation for guaranteed vendor mortgages outstanding at March 31, 2007 is $35,832 (2006 - $68,350).

b) Livestock Drought Loan Program (LDLP)

The Livestock Drought Loan Program was enacted under *The Agricultural Credit Corporation of Saskatchewan Act* in response to the severe drought experienced through parts of the province in 2002. The loans were made through financial institutions and are 100 per cent guaranteed by ACS. The contingent liability of the Corporation under this program at March 31, 2007 is $752,241 (2006 - $3,527,410). The Corporation has a recorded provision of $158,000 (2006 - $741,000) to fund management's estimate of losses on loans as a result of the anticipated guarantee payments under the program. All loans are to be fully repaid by December 31, 2007.

c) BSE Livestock Loan Guarantee Program (BSE)

In September 2003, the BSE Livestock Loan Guarantee Program was enacted under *The Agricultural Credit Corporation of Saskatchewan Act* in response to the May 2003 border closure. The program was designed to provide support to livestock producers affected by export market restrictions and to assist with cash flow. The loans were made through financial institutions and are 100 per cent guaranteed by ACS. The contingent liability of the Corporation under this program at March 31, 2007 is $9,453,601 (2006 - $17,683,285). The Corporation has a recorded provision of $1,985,000 (2006 - $3,700,000) to fund management's estimate of losses on loans as a result of the anticipated guarantee payments under the program. All loans are to be repaid in full by February 28, 2009.

10. Borrowing

Sections 17 and 19 of *The Agricultural Credit Corporation of Saskatchewan Act* allows the Corporation to borrow, with the approval of the Lieutenant Governor in Council, monies from various sources as it deems necessary for its purposes. Section 22 restricts total borrowing by the Corporation to $2,000,000,000. The long-term debt is repayable to the Department of Agriculture and Food. The loan is non-interest bearing with no repayment terms.

Notes to the Consolidated Financial Statements

11. **Revenue**

	(in thousands of dollars) 2007	2006
Interest revenue	**2,261**	2,982
Sales revenue	**2,931**	3,439
Interest recovery on impaired loans	**118**	150
Investments	**99**	88
Other interest	**576**	154
Dividend income	**-**	2
	5,985	6,815

12. **Change in Accounting Policy**

During the year, the Corporation changed its accounting policy with respect to recognizing the income and loss from operations associated with its assets held for resale to comply with generally accepted accounting principles. This change was applied retrospectively and prior year numbers restated. The impact on prior year numbers was to recognize assets held for resale net revenue of $369,000 and increase assets held for resale asset by $369,000. The impact on the current year as a result of the change in policy was to recognize assets held for resale net revenue of $311,000.

13. **Related Party Transactions**

Included in these financial statements are transactions with various Saskatchewan Crown controlled departments, agencies and corporations with which the Corporation is related. Account balances from these transactions are included in the balance sheet and are settled on normal trade terms. Other transactions and amounts due to and from related parties and the terms of settlement are described in the financial statements and notes thereto.

Accounts receivable	40,000
Accounts payable and accrued liabilities	9,540
Deferred grants received for equipment	1,414,861
Operating grant received	509,119
Cost of goods sold	208,715
Expenses	8,711

Certain administration expenses for the Corporation are paid for by the Department of Agriculture and Food. These costs amounted to approximately $1,634,223 (2006 - $1,611,311).

Notes to the Consolidated Financial Statements

14. Change in Working Capital Other Than Cash

	(in thousands of dollars) **2007**	2006 (restated)
Decrease in accrued interest on loans receivable	**297**	576
Decrease in assets held for resale	**374**	291
Decrease (increase) in accounts receivable	**173**	(225)
(Increase) decrease in inventory	**(11)**	(42)
Decrease in accounts payable and accrued liabilities	**(43)**	(190)
Increase in other operating activities	**26**	36
Decrease in due from General Revenue Fund	**-**	3,559
	816	4,005

15. Financial Instruments

Fair Values

Estimated fair value approximates amounts at which financial instruments could be exchanged in an arm's length transaction between willing parties who are under no compulsion to act. Many of the Corporation's financial instruments lack an available trading market, so fair values are based on estimates using present value techniques which are affected by assumptions concerning the timing of future cash flows and discount rates. These estimates are subjective in nature and involve uncertainties and matters of significant judgement and, therefore, cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

The Corporation has determined the fair value of its financial instruments as follows:

a) Cash, short-term investments, accounts receivable, accounts payable and accrued liabilities:

The carrying amount on the balance sheet approximates fair value because of the short-term nature of these instruments.

b) Loans receivable:

Fair value was not established for the loan portfolio due to there being no established market for the developmental loans made by the Corporation. With no available market information and the diverse nature of the loan portfolio, it was not deemed practicable to determine the fair value with sufficient reliability.

c) Long-term debt:

The long-term debt is non-interest bearing and has no fixed repayment terms, and it is not practicable to determine its fair value.

d) AFEF debentures and investments:

Fair value was not established for the AFEF debentures and investments due to there being no established market for the investments made by the Corporation.

15. **Financial Instruments (continued)**

Credit Risk Management

Credit risk arises from potential for borrowers to default on their contractual loan obligations. Credit exposure on the Corporation's loan portfolio is managed through appropriate due diligence and account administration. To minimize the credit risk associated with the loans, the Corporation requires security agreements and personal guarantees on all loans.

Credit risk also arises from the potential that an investment will fail to perform its obligations. The Corporation had a mandate to promote, encourage and contribute to the development of agriculture in Saskatchewan, which involves start-up operations, new company products and expansions. The Corporation conducts a thorough due diligence process prior to committing to the investments and actively monitors the financial health of its investments on an ongoing basis.